

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0386-03
Bill No.: Perfected HCS for HB 64
Subject: Business and Commerce; Revenue Dept.; Taxation and Revenue – General;
Taxation and Revenue – Sales and Use
Type: Original
Date: April 6, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Various State Funds	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials with the **Department of Revenue (DOR)** assume this proposal would create a permanent state sales tax holiday by removing the expiration date. DOR assumes that notification letters along with long form sales tax returns would have to be mailed to 50,000 taxpayers at a cost of \$19,750 (\$1,250 for letters and \$18,500 for postage).

DOR officials stated that they could not estimate the amount of decrease in state or local revenues.

Officials with the **City of Columbia and City of West Plains** assume this proposal would have no fiscal impact on their cities in FY06, and none in FY 07 and subsequent years, assuming the cities approve ordinances to “opt out” of the local sales portion of the holiday.

Officials with the **City of Springfield, Greene County, Laclede County, and St. Louis County**—in response to a previous version of this proposal (0386-03/HCS for HB 64 without amendments)—assumed the proposal would have significant negative fiscal impact in lieu of lost sales tax revenues. **Oversight** assumes this proposal, as perfected, would permit cities and counties that opted out of August 2004 holiday to remain exempted from it, and would provide ASSUMPTION (continued)

them the option of opting out, by ordinance, of sales tax holidays in August 2005 and in subsequent years.

In the absence of estimated state sales tax loss data, **Oversight** reverts back to BAP data provided for a similar previous fiscal note (FN #0345-12 from the 2003 regular session). In it, **Oversight** used BAP data to assume an annual sales tax loss of \$2.5 million per year and \$875,000 to cities and counties. Applying a 2% growth rate to such estimates results in a sales tax loss of \$2.55 million in FY06, \$2.6 million in FY07, and \$2.65 million in FY08 to General Revenue and various state funds.

Oversight assumes this proposal mandates that any local government that passed an ordinance to “opt out” of the 2004 sales tax holiday would remain exempt from it in August 2005 (FY06), unless such an entity passed ordinance to participate. **Oversight** further assumes that all political subdivisions would be required by this proposal to participate in the 2006 sales tax holiday (FY07), unless such a political subdivision approves an ordinance to allow the sales tax holiday not to apply to their local sales tax.

For purposes of this fiscal note, **Oversight** assumes that local political subdivisions that participated in the 2004 sales tax holiday would experience a loss of sales tax revenue in FY06 for three days on the sales of items exempted by Section 144.049, RSMo. **Oversight** cannot determine the number of political subdivisions that will enact ordinances to “opt out” of subsequent sales tax holidays. Therefore, the number of localities and amount of sales tax revenue lost in those years as a result of this proposal cannot be determined.

Oversight acknowledges that local political subdivisions could see an increase in sales tax revenues from non-exempt items as a result of this proposal due to increased retail activity spurred on by the holiday. Such an increase in sales of non-exempt items could potentially offset the sales tax loss created by the exemption contained in this proposal. However, **Oversight** lacks sufficient conclusive data to make a credible estimate.

This proposal could decrease Total State Revenue.

FISCAL IMPACT - State Government

FY 2006

FY 2007

FY 2008

GENERAL REVENUE

RK:LR:OD (12/02)

Loss – Sales Tax Revenues
 Sales Tax Holiday

\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
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Cost – DOR

Notification Letters and Postage

<u>(\$19,750)</u>	<u>\$0</u>	<u>\$0</u>
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**ESTIMATED NET EFFECT ON
 GENERAL REVENUE**

<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(\$Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>
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VARIOUS STATE FUNDS

Loss – Sales Tax Revenues
 Sales Tax Holiday

\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
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**ESTIMATED NET EFFECT ON
 VARIOUS STATE FUNDS**

<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>
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FISCAL IMPACT - Local Government

FY 2006

FY 2007

FY 2008

Loss – Cities and Counties
 Sales Tax Revenues

\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
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**ESTIMATED NET EFFECT ON
 LOCAL GOVERNMENT**

<u>\$0 or</u> <u>(Unknown)</u>	<u>\$0 or</u> <u>(Unknown)</u>	<u>\$0 or</u> <u>(Unknown)</u>
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FISCAL IMPACT - Small Business

Small retailers could see an increase in sales during sales tax holiday periods as a result of this proposal.

DESCRIPTION

This legislation extends the current state and local sales and use tax holiday for certain clothing,

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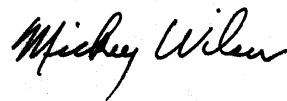
personal computers, and school supplies purchased for personal use during a three-day period each August. The substitute does not apply to retailers when less than 2% of their sales are for qualifying merchandise during the holiday. For the 2005 sales tax holiday, the ability for local governments to opt out of the holiday is limited to those that opted out in 2004. After the 2005 sales tax holiday, any political subdivision may adopt an ordinance or order to opt out of the holiday..

The bill contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
City of Columbia
City of Springfield
City of West Plains
Greene County
Jasper County
Laclede County
St. Louis County



Mickey Wilson, CPA
Director
April 6, 2005